

REPORT OF THE SALES AND INCOME TAX SUBCOMMITTEE

(Clemmons, Hosey, Stavrinakis, Whitmire & Moss - Staff Contact: Michael Jackson)

HOUSE BILL 3135

H. 3135 -- Reps. G.M. Smith, Erickson and Yow: A BILL TO AMEND THE CODE OF LAWS OF SOUTH CAROLINA, 1976, SO AS TO ENACT THE "WORKFORCE ENHANCEMENT AND MILITARY RECOGNITION ACT"; TO AMEND SECTION 12-6-1171, RELATING TO THE MILITARY RETIREMENT INCOME DEDUCTION, SO AS TO REMOVE CERTAIN LIMITS.

Received by Ways and Means:

December 18, 2018

Summary of Bill:

This bill removes the \$17,500 limit in relation to the income deduction of military retirees. Also, at the age of 65, it allows military retirees to deduct any military retirement income that is included in their South Carolina taxable income. -

Estimated Revenue Impact:

This bill will have no expenditure impact on the General Fund, Other Funds, or Federal Funds since any additional duties of the Department of Revenue (DOR) in modifying individual income tax forms and instructions will be managed within existing appropriations.

This bill will reduce General Fund individual income tax revenue by an additional \$9,852,765 in FY 2021-22 from the proposed complete deduction of all remaining military retirement income beginning in the tax year 2021

Subcommittee Recommendation:

Favorable



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number:	H. 3135	Introduced on January 8, 2019
Author:	G.M. Smith	
Subject:	Workforce Enhancement and Military Recognition Act	
Requestor:	House Ways and Means	
RFA Analyst(s):	Shuford	
Impact Date:	January 15, 2019	

Fiscal Impact Summary

This bill will have no expenditure impact on the General Fund, Other Funds, or Federal Funds since any additional duties of the Department of Revenue (DOR) in modifying individual income tax forms and instructions will be managed within existing appropriations.

This bill will reduce General Fund individual income tax revenue by an additional \$9,852,765 in FY 2021-22 from the proposed complete deduction of all remaining military retirement income beginning in tax year 2021.

Explanation of Fiscal Impact

Introduced on January 8, 2019

State Expenditure

The bill alters the military retirement income deduction, which may require the department to modify individual income tax forms and instructions. DOR indicates that these additional duties will be managed within existing appropriations. Therefore, this bill will have no expenditure impact on the General Fund, Other Funds, or Federal Funds.

State Revenue

Beginning in tax year 2021, this bill allows an individual taxpayer under age 65 who has military retirement income to deduct an equal amount of South Carolina earned income from taxable income. This bill allows further that a taxpayer 65 and older who has military retirement income to deduct any military retirement income that is included in South Carolina taxable income.

Presently, Act 272 of 2016 provides an individual income tax deduction of up to \$17,500 of earned income for taxpayers under age 65 that receive military retirement income for tax year 2020. The deduction is equal to the amount of military retirement income, not to exceed \$17,500. When a taxpayer reaches age 65, the taxpayer may deduct up to \$30,000 of military retirement income. The military retirement deductions were phased-in beginning in tax year 2016 over a five-year period through tax year 2020. The estimated revenue impact in FY 2020-21 for these deductions total \$19,563,645. The BEA revenue forecast for that fiscal year will reflect this reduction in General Fund Individual income tax revenue.

Table 1 reports the estimated revenue impact of implementing Act 272 of 2016 and a full deduction of all military retirement income for taxpayers under age 65 in tax year 2021. We estimate that the individual income tax revenue impact of the fully implemented military

retirement income deduction in FY 2021-22 will total \$18,186,060. For taxpayers under age 65, the BEA has included a \$10,042,255 reduction in the individual income tax revenue forecast to implement Act 272 of 2016 through FY 2020-21. Therefore, the proposed complete deduction of the remaining military retirement for taxpayers under age 65 will reduce individual income tax revenue by an additional \$8,143,805 in FY 2021-22.

**Table 1: Estimated Number and Tax Revenue Reduction for
Military Retirees Under Age 65**

Fiscal Year	Total Number of Active Duty Military Retirees	Maximum Earned Income Deduction Amount	Total Tax Revenue Reduction from Full Deduction	Annual Revenue Reduction	Additional Revenue Reduction from Full Military Retirement Deduction in H. 3135
FY 2016-17	19,338	\$5,900	(\$4,048,245)	(\$4,048,245)	\$0
FY 2017-18	19,410	\$8,800	(\$5,636,034)	(\$1,587,789)	\$0
FY 2018-19	19,481	\$11,700	(\$7,230,806)	(\$1,594,772)	\$0
FY 2019-20	19,553	\$14,600	(\$8,599,377)	(\$1,368,571)	\$0
FY 2020-21	19,625	\$17,500	(\$10,042,255)	(\$1,442,878)	\$0
FY 2021-22	19,697	All	(\$18,186,060)	(\$8,143,805)	(\$8,143,805)

Table 2 reports the estimated revenue impact of implementing Act 272 of 2016 and a full deduction of all military retirement income for taxpayers age 65 and older in tax year 2021. We estimate that the individual income tax revenue impact of the fully implemented military retirement income deduction in FY 2020-21 will total \$11,230,350. For taxpayers age 65 and older, the BEA has included a \$9,521,390 reduction in the individual income tax revenue forecast to implement Act 272 of 2016 through FY 2020-21. Therefore, the proposed complete deduction of the remaining military retirement for taxpayers age 65 and older will reduce individual income tax revenue by an additional \$1,708,960 in FY 2021-22.

Combining the revenue impacts of the retirement income tax deduction for all military retirees results in an estimated total reduction in General Fund individual income tax revenue of \$29,416,410 in FY 2021-22. Of this total, the BEA has included a \$19,563,645 reduction in the individual income tax revenue forecast to implement Act 272 of 2016 through FY 2020-21. Therefore, the proposed complete deduction of all remaining military retirement income beginning in tax year 2021 will reduce General Fund individual income tax revenue by an additional \$9,852,765 in FY 2021-22.

**Table 2: Estimated Number and Tax Revenue Reduction for
Military Retirees Age 65 and Older**

Fiscal Year	Total Number of Active Duty Military Retirees	Maximum Retirement Income Deduction Amount	Total Tax Revenue Reduction from Full Deduction	Annual Revenue Reduction	Additional Revenue Reduction from Full Military Retirement Deduction in H. 3135
FY 2016-17	17,874	\$18,000	(\$2,451,350)	(\$2,451,350)	\$0
FY 2017-18	18,127	\$21,000	(\$4,282,550)	(\$1,831,200)	\$0
FY 2018-19	18,383	\$24,000	(\$6,143,350)	(\$1,860,800)	\$0
FY 2019-20	18,643	\$27,000	(\$7,892,100)	(\$1,748,750)	\$0
FY 2020-21	18,906	\$30,000	(\$9,521,390)	(\$1,629,290)	\$0
FY 2021-22	19,173	All	(\$11,230,350)	(\$1,708,960)	(\$1,708,960)

Table 3: Estimated Total Tax Revenue Reduction for All Military Retirees

Fiscal Year	Total Tax Revenue Reduction from Phased-In Deduction	Annual Tax Revenue Reduction from Full Deduction	Additional Revenue Reduction from Full Military Retirement Deduction in H. 3135
FY 2016-17	(\$6,499,595)	(\$6,499,595)	\$0
FY 2017-18	(\$9,918,584)	(\$3,418,989)	\$0
FY 2018-19	(\$13,374,156)	(\$3,455,572)	\$0
FY 2019-20	(\$16,491,477)	(\$3,117,321)	\$0
FY 2020-21	(\$19,563,645)	(\$3,072,168)	\$0
FY 2021-22	(\$29,416,410)	(\$9,852,765)	(\$9,852,765)

Local Expenditure

N/A

Local Revenue

N/A



Frank A. Rainwater, Executive Director

South Carolina General Assembly
123rd Session, 2019-2020

H. 3135

STATUS INFORMATION

General Bill

Sponsors: Reps. G.M. Smith, Erickson and Yow

Document Path: I:\council\bills\nbd\11115dg19.docx

Companion/Similar bill(s): 179

Introduced in the House on January 8, 2019

Currently residing in the House Committee on **Ways and Means**

Summary: Not yet available

HISTORY OF LEGISLATIVE ACTIONS

Date	Body	Action Description with journal page number
12/18/2018	House	Prefiled
12/18/2018	House	Referred to Committee on Ways and Means
1/8/2019	House	Introduced and read first time (House Journal-page 99)
1/8/2019	House	Referred to Committee on Ways and Means (House Journal-page 99)

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VERSIONS OF THIS BILL

12/18/2018

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9 **A BILL**

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11 TO AMEND THE CODE OF LAWS OF SOUTH CAROLINA,
12 1976, SO AS TO ENACT THE "WORKFORCE
13 ENHANCEMENT AND MILITARY RECOGNITION ACT"; TO
14 AMEND SECTION 12-6-1171, RELATING TO THE MILITARY
15 RETIREMENT INCOME DEDUCTION, SO AS TO REMOVE
16 CERTAIN LIMITS.

17
18 Be it enacted by the General Assembly of the State of South
19 Carolina:

20
21 SECTION 1. This act shall be know and may be cited as the
22 "Workforce Enhancement and Military Recognition Act".
23

24 SECTION 2. Section 12-6-1171(A) of the 1976 Code is amended
25 to read:

26
27 "(A)(1) An individual taxpayer who has military retirement
28 income, each year may deduct an amount of his South Carolina
29 earned income from South Carolina taxable income equal to the
30 amount of military retirement income that is included in South
31 Carolina taxable income, ~~not to exceed seventeen thousand five~~
32 ~~hundred dollars~~. In the case of married taxpayers who file a joint
33 federal income tax return, the deduction allowed by this section shall
34 be calculated separately as though they had not filed a joint return,
35 so that each individual's deduction is based on the same individual's
36 retirement income and earned income. For purposes of this item,
37 'South Carolina earned income' has the same meaning as provided
38 in Section 12-6-3330.

39 (2) Notwithstanding item (1), beginning in the year in which
40 an individual taxpayer reaches age sixty-five, an individual taxpayer
41 who has military retirement income may deduct ~~up to thirty~~

1 ~~thousand dollars of any~~ military retirement income that is included
2 in South Carolina taxable income.”
3
4 SECTION 3. This act takes effect January 1, 2021, and first applies
5 for tax year 2021.

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